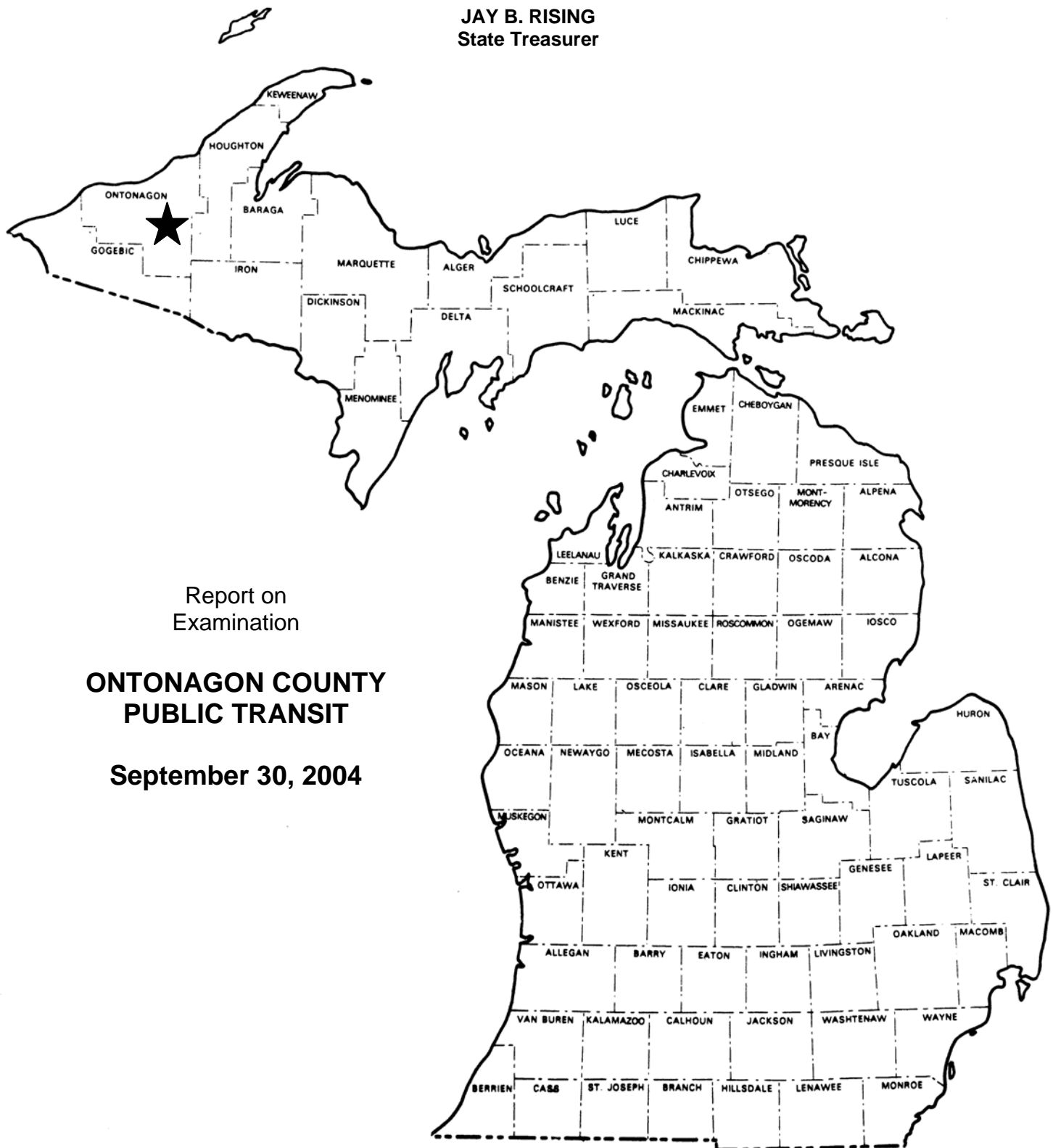


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**ONTONAGON COUNTY
PUBLIC TRANSIT**

September 30, 2004

Local Audit and Finance Division
Bureau of Local Government Services



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 10, 2004

Ontonagon County Public Transit
Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Unqualified Opinions on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Ontonagon County Public Transit Fund, a component unit of Ontonagon County, Michigan, as of and for the year ended September 30, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Ontonagon County's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ontonagon County Public Transit as of September 30, 2004, the changes in financial position and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2004 on our consideration of the Ontonagon County Public Transit's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in

accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note K to the basic financial statements, the Ontonagon County Public Transit has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Ontonagon County Public Transit, taken as a whole. The accompanying Exhibits D and E along with Schedules 1 through 3 are presented for the purposes of additional analysis and are not a required part of the financial statements of the Ontonagon County Public Transit. The accompanying Schedule of Expenditures of Federal and State Awards (Schedule 4) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," (Schedule 3) on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ONTONAGON COUNTY PUBLIC TRANSIT FUND

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Governmental Funds Balance Sheet--Statement of Net Assets	7
EXHIBIT B--Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance--Statement of Activities	8
EXHIBIT C--Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual--General Operating Fund	9
NOTES TO FINANCIAL STATEMENTS	10
EXHIBIT D--Schedule of Revenues--Budget and Actual--General Operating Fund	18
EXHIBIT E--Statement of Expenditures--Budget and Actual--General Operating Fund	19
<u>SUPPLEMENTAL INFORMATION AND SCHEDULES</u>	
SCHEDULE 1--Operating Expenditures	20
SCHEDULE 2--Net Eligible Cost Computations of General Operations	21
SCHEDULE 3--Mileage Data--Unaudited	22
SCHEDULE 4--Expenditures of Federal and State Awards	23
Notes to Schedule of Expenditures of Federal and State Awards	24
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	25

ONTONAGON COUNTY PUBLIC TRANSIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Ontonagon County Public Transit's financial performance provides an overview of the Transit System's financial activities for the fiscal year ended September 30, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Transit System and present a longer-term view of the Transit System's finances.

Overview of the Financial Statements

This annual report consists of three parts--Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Transit System:

- The first two statements are financial statements that provide both long-term and short-term information about the Transit System's overall financial status. These statements report information about the Transit System, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Transit System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Transit System's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Transit System's financial health or position.

Reporting the Transit System as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Transit System, as a whole, and about its activities in a way that helps answer the question of whether the Transit System, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transit System's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Transit System's net assets and how they have changed. The reader can think of the Transit System's net assets (the difference between assets and liabilities) as one way to measure the Transit System's financial health or financial position. Over time, increases or decreases in the Transit System's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transit System you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Transit System's fleet and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Transit System as a Whole

The Transit System's net assets decreased approximately 4.4%, or \$37,085, from \$841,119 to \$804,034 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position has declined in 2004. The restricted net assets decreased by \$42,646 and the investment in capital assets increased by \$5,561 during 2004. The primary reason for the increase in the investment in capital assets was the purchase of the new buses in 2004, which was \$5,561 more than the depreciation expense. There was an increase in salaries, wages and fringes, utilities and materials consumed during the year resulting in the reduction in restricted net assets.

The net assets as of year ended September 30, 2004 are as follows:

	<u>2004</u>
Current and Other Assets	\$ 142,955
Capital Assets	<u>706,332</u>
Total Assets	<u>849,287</u>
Current Liabilities	32,471
Noncurrent Liabilities	<u>12,782</u>
Total Liabilities	<u>45,253</u>
Net Assets	
Invested in Capital Assets	706,332
Restricted	<u>97,702</u>
Total Net Assets	<u><u>\$ 804,034</u></u>

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	<u>2004</u>
Program Revenue	
Charges for Services	\$ 67,232
Operating Grants and Contributions	229,387
Capital Grants and Contributions	74,953
General Revenue	
Property Tax	92,334
Interest Earned	1,371
State Single Business Tax	<u>920</u>
Total Revenue	<u>466,197</u>
Operating Expense	
Salaries, Wages and Fringes	347,996
Depreciation	69,392
Other	<u>85,894</u>
Total Operating Expense	<u>503,282</u>
Decrease in Net Assets	(37,085)
Beginning Net Assets	<u>841,119</u>
Ending Net Assets	<u><u>\$ 804,034</u></u>

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the Transit System completed fiscal year 2004, its governmental fund reported a fund balance of \$97,702, a decrease of \$42,646 from the prior year. The net changes are summarized below:

	<u>2003</u>	<u>2004</u>	<u>Difference</u>	<u>Percentage</u>
Revenues				
Taxes	\$ 88,133	\$ 92,334	\$ 4,201	5%
Federal Grants	47,236	109,665	62,429	132%
State Grants	174,960	195,595	20,635	12%
Charges for Services	55,795	64,774	8,979	16%
Interest and Rentals	2,693	1,371	(1,322)	-49%
Other Revenue	-	2,458	2,458	100%
Total Revenues	<u>368,817</u>	<u>466,197</u>	<u>97,380</u>	<u>26%</u>
Expenses				
Current				
Salaries, Wages and Fringes	334,822	347,996	13,174	4%
Services	4,462	6,363	1,901	43%
Materials and Supplies Consumed	31,869	36,003	4,134	13%
Utilities	7,595	10,461	2,866	38%
Casualty and Liability Costs	13,703	14,617	914	7%
County Central Services Costs	14,614	14,776	162	1%
Other	3,204	3,674	470	15%
Capital Outlay	-	74,953	74,953	100%
Total Expenditures	<u>410,269</u>	<u>508,843</u>	<u>98,574</u>	<u>24%</u>
Excess of Revenues Over (Under) Expenditures	<u>(41,452)</u>	<u>(42,646)</u>	<u>(1,194)</u>	<u>3%</u>
Beginning Fund Balance	<u>181,800</u>	<u>140,348</u>	<u>(41,452)</u>	<u>-23%</u>
Ending Fund Balance	<u>\$140,348</u>	<u>\$ 97,702</u>	<u>\$ (42,646)</u>	<u>-30%</u>

The 30% decrease in fund balance was the result of increased salaries, wages and fringes along with services, materials and supplies consumed and utilities. There was also an increase in Federal and State grants which offset the capital outlay additions of \$74,953.

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Transit System's budget is compiled based upon certain assumptions and facts available at that time. The final budget for 2004 was \$536,986, there were very few budget amendments made from the original budget. The expenses exceeded revenues this year due to increased fuel costs, utilities, labor, and increasing health care premiums, as well as declining State Operating Assistance.

Capital Asset and Debt Administration

At September 30, 2004, the Transit System had \$706,332 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$5,561 or .79% as follows:

	<u>2003</u>	<u>2004</u>	<u>Total Percentage Change 2003-2004</u>
Capital Assets Being Depreciated			
Airport and Transit			
Office Furniture and Fixtures	\$ 7,853		-100.00%
Office and Other Equipment	17,466		-100.00%
Transit			
Building	640,735	\$ 640,735	0.00%
Radio Equipment	23,344		-100.00%
Vehicles	364,147	299,073	-21.76%
Land Improvements		26,536	100.00%
	<u>1,053,545</u>	<u>966,344</u>	<u>-9.02%</u>
Total Capital Assets	<u>1,053,545</u>	<u>966,344</u>	<u>-9.02%</u>
Total Accumulated Depreciation	<u>352,774</u>	<u>260,012</u>	<u>-35.68%</u>
Total Net Capital Assets	<u>\$ 700,771</u>	<u>\$ 706,332</u>	<u>0.79%</u>

Please refer to the notes to the financial statements for more detailed information.

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The 2005 budget will increase to \$586,822 due to increases in fuel costs, utilities, labor and fringe benefit programs that continue to drive up the cost of providing public transit. To offset the increasing costs, the Transit System has received an increase from one half of one mill to a full mill to increase the local share of revenue to the system and to help offset declining State Operating Assistance revenue.

Contacting the Transit System's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Transit System's finances and to show the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ontonagon County Clerk's Office at: 725 Greenland Road, Ontonagon, Michigan 49953.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
GOVERNMENTAL FUNDS BALANCE SHEET
STATEMENT OF NET ASSETS
September 30, 2004

EXHIBIT A

<u>ASSETS</u>	Modified Accrual Basis	Adjustments	Statement of Net Assets
Cash	\$ 18,226		\$ 18,226
Certificates of Deposit	100,000		100,000
Due From State of Michigan	17,731		17,731
Accounts Receivable	4,218		4,218
Prepaid Expense	2,780		2,780
Capital Assets		\$ 706,332	706,332
Total Assets	<u>\$ 142,955</u>	<u>\$ 706,332</u>	<u>\$ 849,287</u>
 <u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 5,238		\$ 5,238
Due to State of Michigan	17,271		17,271
Accrued Wages Payable	9,962		9,962
Accrued Benefits Payable	12,782		12,782
Total Liabilities	<u>45,253</u>	<u>\$ -</u>	<u>45,253</u>
 <u>FUND BALANCE/NET ASSETS</u>			
Fund Balance	<u>97,702</u>	<u>(97,702)</u>	<u>-</u>
Total Fund Equities	<u>97,702</u>	<u>(97,702)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 142,955</u>	<u>(97,702)</u>	<u>45,253</u>
Net Assets			
Invested in Capital Assets--Net of Related Debt		706,332	706,332
Restricted		<u>97,702</u>	<u>97,702</u>
Total Net Assets		<u>\$ 804,034</u>	<u>\$ 804,034</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
STATEMENT OF GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

EXHIBIT B

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenues			
Property Taxes	\$ 92,334		\$ 92,334
Federal Grants	109,665		109,665
State Grants	195,595		195,595
Charges for Services	64,774		64,774
Interest and Rents	1,371		1,371
Other	2,458		2,458
Total Revenue	466,197	\$ -	466,197
Expenditures			
General Government	433,890	69,392	503,282
Capital Outlay	74,953	(74,953)	-
Total Expenditures	508,843	(5,561)	503,282
Excess of Revenues Over (Under)			
Expenditures/Change in Net Assets	(42,646)	5,561	(37,085)
Fund Balance/Net Assets--Beginning of Year	140,348	700,771	841,119
Fund Balance/Net Assets--End of Year	\$ 97,702	\$ 706,332	\$ 804,034

The Notes to Financial Statements are an integral part of the statement.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended September 30, 2004

EXHIBIT C

GENERAL OPERATING FUND				
	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 88,350	\$ 88,424	\$ 92,334	\$ 3,910
Federal Grants	112,472	113,437	109,665	(3,772)
State Grants	207,388	206,215	195,595	(10,620)
Charges for Services	59,000	63,527	64,774	1,247
Interest and Rents	2,000	1,370	1,371	1
Other	-	-	2,458	2,458
Total Revenue	469,210	472,973	466,197	(6,776)
Expenditures				
General Government	475,323	462,033	433,890	28,143
Capital Outlay	57,900	74,953	74,953	-
Total Expenditures	533,223	536,986	508,843	28,143
Excess of Revenues Over (Under) Expenditures	(64,013)	(64,013)	(42,646)	21,367
Fund Balance--October 1, 2003	140,348	140,348	140,348	-
Fund Balance--September 30, 2004	\$ 76,335	\$ 76,335	\$ 97,702	\$ 21,367

The Notes to Financial Statements are an integral part of the statement.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Ontonagon County Public Transit Fund, a blended component unit of Ontonagon County.

The Ontonagon County Public Transit Fund is, for financial reporting purposes, within generally accepted accounting principles, a special revenue fund of Ontonagon County. The financial statements herein present the financial operations of the Public Transit Fund which is used to account for the revenues and expenditures of the Ontonagon County Public Transit System. Revenue is derived primarily from a special voted property tax millage, State and Federal aid, and farebox fees which are earmarked for the operation and maintenance of the transit system. The Ontonagon County Public Transit System is administered by the Ontonagon County Board of Commissioners to provide public transportation services within the boundaries of Ontonagon County.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information of the activities of the Ontonagon County Transit Fund. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Transit Fund's assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Activities demonstrates the degree to which the operating expenses of a given function or segment are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund--Special Revenue Fund

Special revenue funds are used to account for specific revenue derived from State and Federal grants, tax millages and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the operating fund in the government-wide financial statements. Capital assets are stated at historical cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	12 to 20 years
Buses	3 to 7 years
Maintenance Equipment	3 to 10 years
Office Equipment	6 to 10 years

Property Tax Revenues

The county property taxes are levied on each December 1st on the State equalized valuation of property located in the county as of the preceding December 31st.

The county's 2003 ad valorem tax was levied and collectible on December 1, 2003. It is the county's policy to recognize revenues from the current tax levy in the Transit System's 2003-04 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Public Transit System's operations.

The 2003 taxable valuation of Ontonagon County amounted to \$181,062,098, on which ad valorem taxes of .4880 mills were levied for County Public Transit Fund operating purposes.

Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division, Michigan Department of Transportation, a central services cost allocation plan to document those general fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$14,776 was paid to the General Fund by the Public Transit Fund for the 2004 fiscal year central services charges.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

The budget is adopted by the county board of commissioners for the Public Transit Fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund.

Budgeted revenues and expenditures, as presented in Exhibit B, include any authorized amendments to the original budget as adopted.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the county are at various banks in the name of the county treasurer. Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county's deposits and investments are in accordance with statutory authority and the county has adopted an investment policy in accordance with Public Act 196 of 1997. The Public Transit Fund monies are deposited to the county's common bank accounts along with the monies of several other county funds.

The risk disclosures for the County Public Transit Fund's deposits at September 30, 2004, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are not available because the fund's cash deposits are part of the county's general bank accounts. However, we estimate that approximately 19% of the county's bank account balances are covered by FDIC insurance at September 30, 2004. The cash carrying balance at September 30, 2004 was \$118,176.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE D--DUE FROM STATE

The following amounts recorded as “due from” the Michigan Department of Transportation on September 30, 2004 represent amounts earned but not yet received on the respective Federal and State grant contracts and agreements.

Federal Section 5311 Operating Assistance	
2001-02 Contract #02-0077/Z1	\$ 2,204
2002-03 Contract #02-0077/Z3	634
2003-04 Contract #02-0077/Z5	13,329
State Operating Assistance	
2003-04 Operating Assistance	<u>1,564</u>
Total	<u><u>\$ 17,731</u></u>

The above receivables and related program revenues are subject to adjustments resulting from program compliance audits by the Michigan Department of Transportation that have not yet been finalized.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

	Account Balances 10/01/03	Additions	Deductions	Account Balances 09/30/04
Capital Assets Being Depreciated				
Airport and Transit				
Office Furniture and Fixtures	\$ 7,853		\$ 7,853	-
Office and Other Equipment	17,466		17,466	-
Transit				
Land Improvements		\$ 26,536		\$ 26,536
Buildings	640,735			640,735
Radio Equipment	23,344		23,344	-
Vehicles	364,147	48,417	113,491	299,073
Total Capital Assets	1,053,545	74,953	162,154	966,344
Accumulated Depreciation	200,678			
Airport and Transit				
Office Furniture and Fixtures	7,853		7,853	-
Office and Other Equipment	17,466		17,466	-
Transit				
Land Improvements		1,327		1,327
Buildings	42,716	21,358		64,074
Radio Equipment	23,344		23,344	-
Vehicles	261,395	46,707	113,491	194,611
Total Accumulated Depreciation	352,774	69,392	162,154	260,012
Capital Assets Net of Accumulated Depreciation	<u>\$ 700,771</u>	<u>\$ -</u>	<u>\$ 19,648</u>	<u>\$ 706,332</u>

NOTE F--DUE TO THE STATE

The following amounts recorded as “due to” the Michigan Department of Transportation on September 30, 2004 represent amounts overpaid on the respective State grant contracts and agreements, based on audited eligible costs.

State Operating Assistance--2001/02	\$ 2,772
State Operating Assistance--2002/03	<u>14,499</u>
Total	<u>\$ 17,271</u>

The above payables and related program revenues are subject to adjustments resulting from program compliance audits by the Michigan Department of Transportation, which have not yet been finalized.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED ABSENCES

Vacation Benefit Policies

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits are earned and credited to each employee on a biweekly basis. Employees are permitted to maintain an accumulation of up to 1 year's vacation benefits.

Sick Leave Benefit Policies

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. When county general and public transit employees separate from employment with the county, for whatever reason, they shall be paid for 20% of all unused sick days to a maximum of 100 days.

The accrued liability for accumulated and vested vacation and sick leave benefits is recorded in the Public Transit Fund's financial statements as of September 30, 2004.

NOTE H--RISK MANAGEMENT

The Ontonagon County Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The county carries commercial insurance for all losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 years.

NOTE I--EMPLOYEES' RETIREMENT PLAN

Description of Plan and Plan Assets

Ontonagon County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 North Canal Street, Lansing, Michigan 48917-9755.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the county's competitive bargaining units. The calendar year 2003 required pension contributions were 11.31%.

Annual Pension Cost

For the calendar year ended December 31, 2003, the county's annual pension cost was \$157,094 which was equal to the county's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 135,865	100%	\$0
2002	129,707	100%	0
2003	157,094	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation December 31</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Overfunded (Unfunded) AAL (UAAL) (1) - (2)</u>	<u>(4) Funded Ratio (1) / (2)</u>	<u>(5) Covered Payroll</u>	<u>(6) UAL as a % of Covered Payroll</u>
2001	\$ 3,848,410	\$ 4,619,233	\$ (770,823)	83%	\$ 1,305,580	59%
2002	3,985,661	5,030,211	(1,044,550)	79%	1,378,927	76%
2003	4,305,536	5,459,056	(1,153,520)	79%	1,323,550	87%

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE J--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the Transit Fund implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the accrual basis of accounting. Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating contributed capital accounts and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement No. 34.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2004

EXHIBIT D

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Property Taxes	\$ 88,350	\$ 88,424	\$ 92,334	\$ 3,910
Federal Grants				
Section 5311 Operating Assistance				
Contract #02-0077/Z5	51,572	50,014	46,584	(3,430)
RTAP Training Funds	3,000	3,460	3,118	(342)
Section 5309/5311Capital Program	57,900	59,963	59,963	-
Total Federal Grants	112,472	113,437	109,665	(3,772)
State Grants				
FY 03 Formula Operating Assistance	206,288	190,125	179,685	(10,440)
Section 5311 Operating Assistance		14,990	14,990	-
State Single Business Tax	1,100	1,100	920	(180)
Total State Grants	207,388	206,215	195,595	(10,620)
Charges for Services				
Sale of Scrap and Salvage	1,000	3,125	2,127	(998)
Sale of Maintenance Services	1,500	3,470	3,348	(122)
Sale of Advertising Space	1,500	1,932	1,332	(600)
Demand Response Fares	55,000	55,000	57,967	2,967
Total Charges for Services	59,000	63,527	64,774	1,247
Interest and Rents				
Interest Earned	2,000	1,370	1,371	1
Total Interest and Rents	2,000	1,370	1,371	1
Other				
Insurance Recoveries			2,458	2,458
Total Other	-	-	2,458	2,458
Total Revenues	\$ 469,210	\$ 472,973	\$ 466,197	\$ (6,776)

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2004

EXHIBIT E

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Labor	\$ 229,228	\$ 223,901	\$ 216,468	\$ 7,433
Fringe Benefits	131,235	141,515	131,528	9,987
Services	10,450	5,500	6,363	(863)
Materials and Supplies Consumed	44,510	41,166	36,003	5,163
Utilities	9,400	10,500	10,461	39
Casualty and Liability Costs	33,800	18,735	14,617	4,118
Miscellaneous Expense	200	4,216	3,674	542
County Central Services Costs	16,500	16,500	14,776	1,724
Capital Outlay				-
Paving Parking Lot		26,536	26,536	-
Equipment	57,900	48,417	48,417	-
Total Expenditures	<u>\$ 533,223</u>	<u>\$ 536,986</u>	<u>\$ 508,843</u>	<u>\$ 28,143</u>

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF OPERATING EXPENDITURES
For the Fiscal Year September 30, 2004

SCHEDULE 1

	Operations	Maintenance	General Administration	Total System
Labor				
Operators' Wages	\$ 118,756			\$118,756
Other Salaries and Wages		\$23,979	\$32,165	56,144
Dispatchers' Wages	41,568			41,568
Fringe Benefits	96,503	17,535	17,490	131,528
Services	2,066		4,297	6,363
Materials and Supplies Consumed				
Fuel and Lubricants	23,384			23,384
Tires and Tubes	1,990			1,990
Other Materials and Supplies	620	7,314	2,695	10,629
Utilities	2,158		8,303	10,461
Casualty and Liability Costs	14,478		139	14,617
Miscellaneous Expenses				
Travel and Meetings			3,018	3,018
Association Dues and Subscriptions			656	656
County Central Services Costs			14,776	14,776
	<u>\$ 301,523</u>	<u>\$48,828</u>	<u>\$83,539</u>	<u>\$433,890</u>

ONTONAGON COUNTY PUBLIC TRANSIT FUND
NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
For the Fiscal Year Ended September 30, 2004

SCHEDULE 2

	Federal Section 5311	State Operating Assistance
Operating Expenditures		
Labor	\$ 216,468	\$216,468
Fringe Benefits	131,528	131,528
Services	6,363	6,363
Materials and Supplies Consumed	36,003	36,003
Utilities	10,461	10,461
Casualty and Liability Costs	14,617	14,617
Miscellaneous	3,674	3,674
County Central Services Costs	14,776	14,776
Total Operating Expenditures	433,890	433,890
Less: Ineligible Expenditures		
Cost of Maintenance Services Sales	2,844	2,844
Insurance and Bond Recoveries	2,458	2,458
Membership Dues	46	46
Federal (RTAP) Training Funds	3,118	3,118
Net Eligible Expenditures	425,424	425,424
Federal Section 5311 Funding (10.95% x Net Eligible Expenditures)	<u>\$ 46,584</u>	
State Operating Assistance (42.236619648% x Net Eligible Expenditures)		<u>\$179,685</u>

**ONTONAGON COUNTY PUBLIC TRANSIT
MILEAGE DATA--(UNAUDITED)
For the Fiscal Year Ended September 30, 2004**

SCHEDULE 3

	<u>Public Transportation Mileage</u>
Demand--Response	
First Quarter	38,384
Second Quarter	41,691
Third Quarter	36,370
Fourth Quarter	<u>38,323</u>
 Total Operation	 <u><u>154,768</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2004

SCHEDULE 4

	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures	Amount Remaining
U.S. Department of Transportation Passed through Michigan Department of Transportation							
Federal and State Section 5309/5311 Capital Programs							
Parking Lot Paving	21	02-0077/Z2	\$ 30,000	\$ 21,229	\$ 5,307	\$ 26,536	\$ 3,464
11+1 Passenger Bus with Lift	21	02-0077/Z4	48,420	38,734	9,683	48,417	3
Federal and State Operating Assistance Computations Based on Net Eligible Federal and State Expenditures						425,424	
Federal Operating Assistance Section 5311	21	02-0077/Z5	50,014	46,584			
Federal Training (RTAP) Funds				3,118		3,118	
State Operating Assistance Act 51 Formula Funding (FY 04)	N/A	N/A	190,125		179,685		
Total Department of Transportation				\$109,665	\$194,675	\$503,495	\$ 3,467

ONTONAGON COUNTY PUBLIC TRANSIT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Ontonagon County Public Transit. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting, which is described in Note B of the Transit System's basic financial statements.
3. Ontonagon County Public Transit only recognized \$46,584 of the maximum Section 5311 Reimbursement based on the net eligible costs computation presented as Schedule 2.
4. State operating assistance of \$179,685 was recognized based on the net eligible costs computation presented as Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as the DAR's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the state operating assistance percentage in Schedule 2, after audited close-outs, based on statewide eligible expenses.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 10, 2004

Ontonagon County Public Transit
Ontonagon County Board of Commissioners
County Courthouse
725 Greenland Roadt
Ontonagon, Michigan 49953

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the Ontonagon County Public Transit Fund, a component unit of Ontonagon County, as of and for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Ontonagon County Public Transit Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Ontonagon County Public Transit Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division